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1990
Annual Report

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CORPORATE INFORMATION

Corporate Profile

Panarctic Oils Ltd., an industry/government consortium, is owned more than 50 percent by the Government of Canada through Petro-Canada Inc., with the remainder of the shares held by 34 mainly Canadian corporate or individual shareholders. Panarctic explores for oil and natural gas in the Canadian Arctic Islands north of the Canadian mainland. This effort has resulted in the discovery of large reserves of natural gas and modest amounts of crude oil. Gas reserves represent a 20 percent addition to Canada's gas supply. Company efforts are currently directed to producing and distributing small volumes of crude oil to northern and southern Canadian markets.

Head Office

Incorporated May 27, 1966
by Federal Letters Patent
Head Office
815 Eighth Avenue South West
Calgary, Alberta T2P 3P2

Bankers

Bank of Montreal
Calgary, Alberta

Auditors

Price Waterhouse
Calgary, Alberta

Annual Meeting

The annual meeting of shareholders of Panarctic Oils Ltd. will be held in the Company's head office located at Panarctic Plaza, 815 Eighth Avenue South West, Calgary, Alberta on Tuesday, May 14th, 1991 at 9:00 a.m. M.D.T.

Officers

JOHN M. TAYLOR
Chairman of the Board

WILBERT H. HOPPER
Vice-Chairman of the Board

CHAS. R. HETHERINGTON
President and Chief
Executive Officer

COLIN S. MacDONALD
Vice-President and
Secretary-Treasurer

K. GREY ALEXANDER
Assistant Secretary and
Manager of Operations

CORINNE E. DAVEY
Assistant Secretary

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PRESIDENT'S REPORT

1990 marked the sixth consecutive year of delivery of crude oil from the Arctic by Panarctic. This year prior contractual obligations and mechanical difficulties with the transport ship limited the Company to only one shipment of 155,060 barrels. Crude oil prices however increased dramatically in the fall of 1990 generating approximately $5.3 million in revenue down only slightly from 1989's two shipment season. Transportation and marketing costs were substantially down from 1989 resulting in improved net profit from production activities. Panarctic will be attempting two deliveries of crude oil from Cameron Island in 1991.

A geological/geophysical review commenced in 1989 continued in 1990. The Company is concentrating on identifying oil prone areas on land with a view to undertaking a modest exploration program within the next two years.

Panarctic's net income for 1990 is $919,000 or $.13 a share. It has no long-term debt and the Company finished the year with $23 million in cash and term deposits available for future exploration and development activity. The Company's operation is handled by a small permanent staff supplemented by temporary employees for field operations.

Mr. E. M. Lakusta did not stand for re-election in 1990 due to business commitments. Panarctic would like to express its appreciation for the many years of service provided to the Board by Mr. Lakusta.

Finally the Company would like to record its appreciation to the employees for the efficient way in which they carried out their duties.

Chas. R. Hetherington

Chas. R. Hetherington
President and Chief
Executive Officer

Calgary, Alberta
March 1991

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BOARD OF DIRECTORS

RICHARD N. BROWN *
Senior Vice-President, Exploration
Amoco Canada Petroleum Company Ltd.

GARY C. BRUCE
General Manager, New Developments
Petro-Canada Resources

J. A. DILLABOUGH **
Senior Vice-President, Production
Canadian Hunter Exploration Ltd.

DALLAS E. HAWKINS
President
Drake Petroleum

CHAS. R. HETHERINGTON *
President and Chief Executive Officer
Panarctic Oils Ltd.

WILBERT H. HOPPER
Chairman and Chief Executive Officer
Petro-Canada Inc.

PETER KAYE *
Senior Vice-President, Exploration
Petro-Canada Resources

DONALD N. MAXWELL **
Vice-President, Corporate Services
PanCanadian Petroleum Limited

RODNEY T. McGRATH
Vice-President, Operations
Petro-Canada International
Assistance Corporation

OWEN E. OWENS
Vice President, Exploration
Cominco Ltd.

JAMES PANTELIDIS *
President, Resources Division
Petro-Canada Resources

DAVID E. POWELL *
Executive Vice-President and
Chief Operating Officer
Home Oil Company Limited

STEPHEN R. SIEGFRIED
President
Mosbacher Operating Ltd.

CHRISTOPHER J. SMITH **
Controller
Petro-Canada Inc.

JAMES M. STANFORD *
President and Chief Operating Officer
Petro-Canada Inc.

JOHN M. TAYLOR *
Businessman
Calgary, Alberta

WILLIAM B. THOMPSON
Vice-President and General Manager
Petro-Canada Resources

C. ROLF V. THOMSON
Vice-President, Exploration
PanCanadian Petroleum Limited

MURRAY B. TODD
Senior Vice-President, Production
Amoco Canada Petroleum Company Ltd.

WESLEY R. TWISS *
Senior Vice-President, Finance and Planning **
Petro-Canada Inc.

* Member of the Executive Committee of the Board
** Member of the Audit Committee of the Board

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FIVE YEAR OPERATING AND FINANCIAL SUMMARY

	1990	1989	1988	1987	1986
Crude Oil Production (bbls)	**151**	264	347	216	108
Crude Oil Sales (bbls)	**155**	268	296	265	103
Sales Revenue	**$ 5,260**	$ 5,638	$ 5,170	$ 6,162	$ 2,020
Transportation Costs	**$ 1,305**	$ 2,754	$ 1,836	$ 1,929	$ 1,013
Share Capital as at December 31					
Number of Shares *	**7,017**	7,017	70,172	70,172	70,172
Capital *	**$35,712**	$ 35,712	$298,712	$298,712	$298,712
Cash Flow per Share	**$ 0.30**	$ 0.04	—	—	—
Net Income <Loss> per Share	**$ 0.13**	$ <37.59>	—	—	—
Land Holdings as at December 31					
Gross Hectares	**324**	324	324	538	5,426
Net Hectares **	**128**	128	129	275	1,603

* 1989 reflects Share Consolidation and reduction in Stated Capital

** Subject to 10 percent net profits interest

NOTE: All amounts shown in the summary are in thousands, except the per share values which are in dollars.

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AUDITORS' REPORT

To the Shareholders of Panarctic Oils Ltd.

We have audited the consolidated balance sheet of Panarctic Oils Ltd. as at December 31, 1990 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Calgary, Alberta
January 31, 1991

Price Waterhouse
Chartered Accountants

MANAGEMENT'S RESPONSIBILITY

Management is responsible for all information contained in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial and operating information included in this annual report is consistent with that contained in the consolidated financial statements in all material respects.

Management has established and maintains appropriate systems of internal control, policies and procedures, which are designed to provide reasonable assurance that assets are safeguarded and that reliable financial records are maintained.

Price Waterhouse, external auditors appointed by the Shareholders, have independently examined the consolidated financial statements for the purpose of expressing an opinion thereon. Their report is included in this annual report. The Audit Committee consisting of non-management directors has reviewed these statements with management and the auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

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CONSOLIDATED BALANCE SHEET

(thousands of dollars)

	December 31	
ASSETS	1990	1989
CURRENT ASSETS:		
Cash and term deposits	$22,991	$21,065
Accounts receivable	775	200
Inventory of supplies (Note 7)	5,730	5,950
Prepaid expenses	59	74
	29,555	27,289
CAPITAL ASSETS:		
Property, plant and equipment, net (Note 3)	7,033	8,170
	$36,588	$35,459
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable & accrued liabilities	$ 743	$ 533
SHAREHOLDERS' EQUITY:		
Share capital (Note 5)	35,712	35,712
Retained earnings (deficit)	133	<786>
	35,845	34,926
CONTINGENCIES AND COMMITMENTS (Note 7)		
	$36,588	$35,459

Approved by the Board

J M Taylor Director

Chas. R. Hetherington Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(thousands of dollars)

	For the year ended December 31	
	1990	1989
REVENUE		
Crude oil sales	$ 5,260	$ 5,638
Investment income	2,554	2,161
	7,814	7,799
EXPENSES		
Crude oil transportation	1,305	2,754
Crude oil marketing	835	1,257
Facility maintenance and operating	584	611
Well abandonments (Note 7)	162	—
Depreciation, depletion and amortization	1,174	1,888
Administrative and general	2,387	2,287
Geological and geophysical	210	217
Other	190	355
Impairment of non-producing properties	—	262,216
	6,847	271,585
Income (loss) before income taxes	967	<263,786>
Provision for income taxes (Note 4)	48	—
NET INCOME (LOSS)	919	<263,786>
Deficit at beginning of year	<786>	—
Share capital reduction	—	263,000
Retained earnings (deficit) at end of year	$ 133	$ <786>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(thousands of dollars)

	For the year ended December 31	
	1990	1989
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss)	$ 919	$<263,786>
Add: Depreciation, depletion, amortization and other non-cash items	1,069	1,878
Impairment of non-producing properties	—	262,216
	1,988	308
Net change in non-cash working capital balances	<130>	898
	1,858	1,206
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Purchase of equipment	<52>	<30>
Proceeds from sale of fixed assets	120	43
	68	13
Net increase in cash during the year	1,926	1,219
Cash at beginning of year	21,065	19,846
Cash at end of year	$ 22,991	$ 21,065

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1990

1. ACCOUNTING POLICIES:

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Rigel Airways Ltd.

Inventory of Supplies

Inventories are recorded at average laid down cost in the Arctic.

Oil and Gas Exploration and Development Expenditures

The Company follows the successful efforts method of accounting under which the initial acquisition costs of oil and gas properties and the cost of drilling and equipping successful exploratory wells and development wells are capitalized. The costs of exploration wells classified as unsuccessful are charged to earnings. All other exploration expenditures including geological and geophysical and annual rentals on exploratory acreage are charged to earnings as incurred.

Depreciation, Depletion and Amortization

Capitalized costs with respect to proved oil and gas properties are amortized on the unit of production method using estimated proved oil and gas reserves. Depreciation of investment in plant and equipment is based on the estimated remaining useful life of the asset using either the straight line or unit of production method. Capitalized costs of significant unproved oil and gas properties are assessed regularly to determine whether an impairment in value has occurred.

Pension Plan

The Company has a defined contribution pension plan covering all employees. Company costs of the plan are charged to operations.

2. CHANGE IN ACCOUNTING POLICY:

As a consequence of the Company's changed circumstances with respect to its business and exploration activities, the Company adopted the successful efforts method of accounting on a prospective basis effective January 1, 1989. Previously the activities of the Company were considered to be in the exploratory stage and all expenses, less recoveries from contract operations and revenue realized on sale of crude oil production, were capitalized.

As a result of this change the Company carried out an impairment review of the non-producing oil and gas properties which resulted in a provision for impairment of $262,216,000 being recorded against earnings in 1989.

3. PROPERTY, PLANT AND EQUIPMENT:

	December 31, 1990			
	Cost	Accumulated Depreciation Depletion & Amortization	Net Book Value	Net Book Value December 31 1989
	(thousands of dollars)			
Oil and gas	$16,315	$ 9,752	$6,563	$7,496
Drilling equipment	26,341	26,340	1	8
Camps and buildings	5,816	5,816	—	—
Mobile equipment	4,804	4,757	47	28
Storage facilities	3,008	3,008	—	—
Aircraft	1,147	1,057	90	139
Radio & navigational equipment	1,610	1,607	3	7
Other	6,489	6,160	329	492
	$65,530	$58,497	$7,033	$8,170

Cost for all asset pools are reduced by government incentive grants and investment tax credits claimed. The majority of the Company's assets have been substantially written off, however the assets remain serviceable and are available for use.

4. INCOME TAXES:

The provision for income taxes of $48,000 represents an adjustment to prior years.

The Company's income for tax purposes in 1990 on an accounting basis is $1,000,000. No provision for income tax on this profit has been made however, since the Company has a tax loss available from the prior year for which the benefit was not recognized and which exceeds the 1990 income for tax purposes. In addition, the Company has remaining tax pools available to claim against future income in an amount of $1,600,000 in excess of the related net book values as well as investment tax credits totalling $400,000 which expire in 1991. The tax benefit of this excess has not been recognized in these accounts as there remains uncertainty as to being able to utilize such tax pools in future years.

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5. SHARE CAPITAL:

Common Share Summary (Authorized - Unlimited Common Shares of no par value)

	1990		1989	
	Number of Shares	**Amount**	Number of Shares	Amount
		(thousands of dollars)		
Issued, beginning of year	**7,017,210**	**$ 35,712**	70,171,964	$298,712
Share Consolidation	—	—	<63,154,754>	<263,000>
Issued, end of year	**7,017,210**	**$ 35,712**	7,017,210	$ 35,712

Warrants which entitled the holders thereof to purchase an aggregate of 1,143,994 additional common shares at $10.00 per share expired December 31, 1990.

6. RELATED PARTY TRANSACTION:

The Company's 1990 crude oil sales were made to Petro-Canada Inc. at a price based upon market rates. Petro-Canada Inc. owns 53% of the common shares of the Company.

7. CONTINGENCIES AND COMMITMENTS:

(a) The Company has substantially curtailed its exploration operations. The inventory of supplies, consisting primarily of fuel and drilling mud, which are not normally subject to physical deterioration has been valued at cost on the basis that the Company will continue as a going concern and utilize such inventory in future drilling operations in the Arctic. Should the Company be required to dispose of its inventory on a liquidation basis, the realizable value would be substantially less than the cost reflected in these financial statements.

(b) The Company is contingently responsible for the abandonment of sixteen wells located in the Arctic Islands in which it has working interests ranging from 45% to 100%. All but one of the wells are located on land. Discussions in 1990 with federal regulatory officials resulted in an agreement on a downhole abandonment program commencing in 1991. This program, involving seven wells, will take an estimated two years to complete. No provision has been made by the Company for abandonment and restoration costs since management do not consider the amount to be estimable at this time. There are no plans for the abandonment of the remaining wells. The Company continues to conduct an annual inspection of each well it operates.

(c) In 1990, the Company implemented a limited program to sell forward crude oil, by undertaking to deliver 20,000 barrels in September 1991 at an average price of $26.00 U.S. per barrel. Any gain or loss on the transaction will be reflected at the time of settlement of the contract.

(d) The Company has a lease agreement covering the rental of office facilities which expires January 31, 1993. The net rental obligations after subleases, amounts to approximately $1,300,000 annually.

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SUMMARY OF SHAREHOLDERS

	Common Shares
Petro-Canada Inc.	3,700,206
PanCanadian Petroleum Limited	555,808
Amoco Canada Resources Ltd.	464,589
Cominco Ltd.	428,092
Mosbacher Operating Ltd.	350,000
Home Oil Company Limited	316,813
Inco Limited	257,933
Noranda Inc.	238,140
Canada Northwest Energy Limited	158,733
Oakwood Petroleums Ltd.	110,046
Venwest Resources Limited	99,523
North Canadian Oils Limited	93,338
Bow Valley Industries Ltd.	91,038
Placer Dome Inc.	73,863
Norcen Energy Resources Limited	46,153
Sigma Mines (Quebec) Ltd.	8,219
Merritt, Robert Keith	4,000
Hetherington, Rose	3,094
Crombie, Ethel I.	3,000
Nesbitt Thomson Bongard Inc.	2,764
Canadian Superior Oil Ltd.	1,889
Henao, Diego	1,750
Connelly, E.	1,383
Saskatchewan Oil and Gas Corporation	1,235
Armstrong, Jack Greaves	1,000
Tanner, Doris Newland	938
Alexander, K. Grey	800
Atco Drilling Holdings Ltd.	800
Pembina Resources Ltd.	769
Ultramar Canada Inc.	519
Place Resources Corporation	290
Luscar Ltd.	200
Estate of James E. Day	198
Franklin, Lindsay J.	49
Canadian Moran Ltd.	38
	7,017,210

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